

## The Great Telecom Rip-Off (Explanation of Why Merger Should Be Blocked)

We all have an Aunt Ethel. She's getting on in years but remains fiercely independent; she lives on a fixed income but in the same home she's had for half-a-century. Sadly, most of her family has passed away and those who are alive are dispersed around the country. Making matters worse, she is having a harder time making sense of her never-ending stream of bills, especially her phone bill.

I regularly visit Aunt Ethel to keep her company and to help her pay her bills. When I arrived one recent morning she was in a state. She had attempted to place a long-distance call through her carrier, AT&T, but found that her service had been summarily stopped. If this had been the first time that this had occurred, I would have assumed it was technical screw-up and accepted it as an inconvenience. Unfortunately, this was the second time the service had been arbitrarily stopped and Ethel said, "Enough, already," and ended service with AT&T.

The U.S.'s current economic (and, by extension, political) crisis is a tale of the return of corporate trusts. It involves not only the financial institutions deemed too-big-to-fail, but the health-insurance combine, the energy conglomerates and the telecom duopoly of telecommunications and cable-entertainment companies that dominate the American economy. Each is engaged in the systematic plunder of the American consumer, providing less service at increasingly inflated prices. And all done under the blind eyes of federal non-regulators.

American capitalism has come full-cycle from the legendary battles waged by Teddy Roosevelt and other Progressives a century ago. Then, they battled the shameless practices of industrial trusts like Standard Oil. Today, Rockefeller's corporate descendents continue to dominate the American economy and the trust model is reemerging. This time, unfortunately, there is no TR to do battle for the public good. Instead, Democrats and Republicans, along with a vast infrastructure of lobbyists, front groups, grateful non-profits and astroturf shills, shamelessly serve the interests of not only big finance, but big health-care, big energy and big telecom-media. Political support for consolidation is rationalized as necessary to combat the challenge of globalization and to ensure American competitiveness, fictions waved before the electorate every other year to inflame patriotic zeal.

While the dominant financial, health-insurance and energy trusts have come under public scrutiny during the last year due to their individual crises, little attention has been paid to the mounting power of the telecom-media trust. The announced plans by Comcast to acquire NBC-Universal and the FCC's attempt to maintain net neutrality provide important vantage points for critical assessment. However, nothing offers a better insight into the ongoing telecom rip-off and the complicity of the regulatory bodies that have ostensible oversight over the telecom industry than a careful consideration of a hypothetical telephone bill, Aunt Ethel's bill. For there is no better way to conceal a theft than to make it so transparently visible that no one sees it.

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Conventional telecom bills can be a "stand alone" local bill, long distance, Internet, broadband or a combination of these as a package of services. Each is a minefield of hidden fees, questionable surcharges and dubious taxes all designed to enrich the telecom's bottom line without requiring any meaningful improvement in customer service.

Local Service used to be a "bundled" service. In 1980, before the break up of AT&T, local service (in many states) came with unlimited local phone calling, unlimited directory assistance (411), the wire in the home and even a rotary telephone " and all for \$8.00 to \$10.00 a month.

In New York City, in the "80s local service was "measured," meaning a call was charged by the minute, but it came with a "call allowance," including a package of free calls, 6 free directory inquiries, a \$.30 credit applied if you didn't use these calls and each call costs \$.10. Local service also included a phone and the wiring in the home.

Today, for comparable local service (and the consumer has to purchase the phone), the price of local calls has skyrocketed by a whopping 591 percent. Specific charges are revealing:

" Directory assistance calls costs almost \$1.50 (including taxes) each and there are no free inquiries, although many customers believe their service comes with free calls. (New Jersey is one of the few states that actually as a few free directory calls.)

" FCC Line Charge (sometimes called the "Subscriber Line Charge") was added and now adds an additional \$6.42 in New York to local service charges. Adding insult to injury, this charge is taxed over 33 percent covering both federal and state taxes.

This charge is hidden in most states in the "taxes" and "surcharges" section and it does do not go to fund the FCC but flows back directly to the local phone companies.

" Inside wiring and "inside wire maintenance" was included in the cost of local service in 1980 and has gone up 464 percent over the last three decades. While ostensibly optional, over half of those paying for this service didn't order it and Verizon claims that the inside wiring broke only once every 16 years.

" Calling features like Call Waiting, Caller ID and Call Forwarding are popular and can cost \$5.00 to \$11.00 a month. However, the actual cost to offer these services is estimated to be about \$.01 -\$.20 cent for each service. (According to a 1999 Florida Public Service Commission report.)

Long Distance Service used to be dominated by the AT&T "trust" which was broken up because a small competitor, MCI, challenged its essential monopoly. In the 1980s and 1990s, competition between AT&T, MCI and Sprint drove down prices. Today, however, long distance companies have merged with local phone companies into vertically integrated conglomerates. Nevertheless, according to data filed with the FCC in 2005, about one-third of American telecom customers still use a standalone long distance service.

For the Aunt Ethels of the America who still use such service, they are being systematically screwed. Today, AT&T's basic long distance rate service for a one-minute call is \$.42. However, in some markets (e.g., San Diego, CA) seniors, including those on Lifeline service, are paying \$.50-\$1.00 a minute or more for long distance. Making matters more confusing, there are more than 30 different active plans with fees ranging from \$3.00 to \$30.00 per month.

Other questionable charges include:

- ? Cost Recovery fee is a made up charge that goes directly back to the companies.

- ? Minimum Usage fee is really a penalty charge if you don't make a sufficient number of calls that can range from \$7.00 to \$9.99.

- ? Printed Bill fee are being imposed to force customers to pay with via an online service.

- ? "Taxes and Surcharges" from the Universal Service and other fees hidden on the bill.

The Universal Service fund is probably the most dubious charge and runs a whopping 15.2 percent, although the amount varies by quarter. It covers long distance service, wireless services and even parts of the local bill, such as the FCC Line charge, which has been declared an "interstate service." Designed initially to make sure that everyone in America had phone service and later to pay for schools and libraries to get services, it now is a slush fund riddled with fraud. The largest portion of this fund is called the "high-cost" fund and goes directly to telecoms offering service in rural areas; it is imposed without provisions for an audit to determine how the monies are allocated.

Telecoms are increasingly promoting "packages" that benefit heavy users, but "low volume" customers like Aunt Ethel pay a lot more.

The first problem is the basic confusion in the offering between the advertised price and the billed fee sent to customers that can be 15-40 percent higher. Second, and like the balloon mortgages made famous in the sub-prime housing debacle, many packages are based on "gimme" or "promotional"

prices that can quickly jump by as much as 50 percent after the original offer expires.

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Telecom regulation suffers the same fate as did the banks under the watch-less eye of the Federal Reserve and BP drilling in the Gulf of Mexico under the Minerals Management Service. No regulator has jurisdiction over the phone bill, particularly state Public Utility Commissions. No regulator has actually examined all the charges on the phone bills. Hiding behind the claim that industry deregulation has taken place over the last quarter century, regulators argue that there's market competition that fixes everything.

This situation is likely to only get worse as further industry consolidation takes place and when the FCC introduces its new National Broadband plan. This plan is likely to raise customer telecom rates in five different ways. It will likely (i) increase the Universal Service fund tax is now 15.2 percent on all long distance calls (including wireless); (ii) increase the FCC Line Charge; (iii) increase local rates; (iv) add a new broadband tax, euphemistically dubbed the "Connect America" tax and (v) create a new "mobility" fund.

The telecom fiber optics upgrade rip-off is one of the great scams perpetrated against the American people. Much of the "deregulation" that has occurred has been done to alleged upgrade the old copper wiring with fiber optics. While Verizon and AT&T have rolled out some broadband upgrade, the estimated \$320 billion collected since the 1990's and has not been spent on upgrading their respective networks.

According to the telecom's industry's most aggressive estimates, in 2009 approximately 15.1 million homes were "passed" (i.e., could access fiber) but only 4.4 million actually subscribed to fiber services. [RVA for the FTTH Council] And this is in a nation of 120 million households.

The billions so far charged to American telecom customers for these upgrades were based on promises to enhance Internet connectivity at schools, libraries and hospitals. Sadly, little of this promise has taken place since Al Gore promised the "information superhighway" nearly two decades ago. All that telecom customers can count on is seeing their bills steadily rise.

While the FCC is discussing reform, it's clear it is unlikely to actually examine the companies receiving the money. Many of these telecoms uses these taxes and surcharges to fatten their balance sheets and don't use the monies to improve customer services.

Aunt Ethel passed away in 2001 at the age of 92, but her spirit lives on. As she often said, "Go get those bastards." It is a call we should all embrace as we contest the tyranny of the global trusts.